SUPERVISORY PRACTICES REGARDING DEPOSITORY INSTITUTIONS AND BORROWERS AFFECTED BY FLOODING IN THE MIDWESTERN UNITED STATES

In response to the serious flooding in the Midwest the FDIC is announcing to the financial institutions for which it is the primary federal regulator the following initiatives to provide regulatory relief and facilitate recovery.

Lending. It has been a long-standing practice of the FDIC to promote supervisory actions that encourage federally regulated financial institutions to work constructively with borrowers who are experiencing difficulties due to conditions beyond their control.

The physical destruction and business disruption caused by recent heavy flooding in the Midwest has placed financial pressures on businesses and individuals in the affected areas, in some cases adversely affecting their ability to repay loans in accordance with original terms and conditions. Often the financial pressures stemming from such events are transitory in nature, and borrowers are able to resume payments when economic conditions improve or the borrowers' financial positions stabilize. Under such circumstances, financial institutions generally determine that the most prudent policy is to work with borrowers experiencing difficulty in a manner that is consistent with sound banking practices, rather than take more precipitous actions such as foreclosure and/or forcing the borrower into bankruptcy.

Lenders often find it in their and the borrowers' interests to extend terms of repayment or otherwise restructure the borrower's debt obligations. Such cooperative efforts can ease pressures on troubled borrowers, improve the capacity of such borrowers to service debt, and strengthen a financial institution's ability to collect on its loans. Financial institutions in areas affected by the widespread flooding may also deem it appropriate to ease credit-extending terms for new loans to certain borrowers, consistent with prudent banking practices, in order to assist the borrowers in recovering their financial strength and place them in a better position to service their debts. With proper risk controls and management oversight, these actions can both contribute to the health of the local community and serve the long-run interests of the lending institution and will not be subject to examiner criticism.

Financial institutions in the affected areas may find that their levels of delinquent and nonperforming loans will increase. Consistent with long-standing practices, the FDIC in supervising these institutions will take into consideration the unusual circumstances they face.

One of the principal objectives of the examination and supervision process is to achieve an accurate assessment of a financial institution's loan portfolio and financial condition. In carrying out its supervisory responsibilities, the FDIC recognizes that efforts to work with borrowers in communities under stress can be consistent with safe and sound banking practices as well as in the public interest.

Credit Availability. The FDIC reminds lenders of its recently announced program on documentation of loans to small and medium-sized businesses and farms. If an institution has adequate capital and is rated 1 or 2, it may designate a basket of loans that examiners will evaluate solely on the basis of performance and will be exempt from criticism for documentation. An extension of the program to some 3 rated institutions is in progress. Bankers may discuss the details of this policy with their regional office.

Waiver of Real Estate Appraisal Regulations. Pursuant to section 2 of The Depository Institutions Disaster Relief Act of 1992 (DIDRA) the FDIC is in process of preparing a waiver of certain real estate appraisal regulations for the areas affected by the current flooding. Once the waiver is issued, affected real estate transactions for up to three years would not require an appraisal by a state-licensed or state-certified appraiser nor need to be prepared in accordance with all the regulatory standards. Action on this waiver is expected in the next several days, in time for any recovery lending.

Leverage Capital Requirements. Through April 22, 1994, section 4 of DIDRA permits the FDIC to grant to individual banks some relief from regulations governing leverage capital requirements if, as a result of a temporary inflation of assets due solely to the deposit of insurance proceeds or government assistance funds, capital ratios are temporarily reduced. In order to qualify, an institution must have been adequately capitalized before the disaster. Banks affected who may need this relief should contact their FDIC regional office for particulars.

Temporary Banking Facilities. FDIC regional offices will expedite any request to operate temporary bank facilities by an institution whose quarters have been damaged or that desires to provide more convenient availability of services to those affected by the flooding. In most cases, a telephone notice to the regional office will suffice initially and necessary written notification can be submitted later.

Reporting Requirements. FDIC-supervised institutions affected by the flooding should notify the FDIC regional office if they expect a delay in filing their June 30 Call Reports of Income and Condition or other reports. The FDIC will take into consideration any causes beyond the control of a reporting institution in considering how long a delay in filing can be accepted.

Community Reinvestment. To encourage financial institutions to meet the needs of communities, the FDIC, in assessing Community Reinvestment Act ("CRA") performance, will give positive consideration to a financial institution's active participation in programs where most or all of the financing provided may benefit affected low- and moderate-income borrowers or such neighborhoods even if located outside of the institution's delineated community. In determining whether and to what extent positive consideration will be given, the FDIC will assess the activities undertaken in the context of an institution's overall CRA program. Where such participation augments or complements an overall CRA program that is directly responsive to the credit needs in an institution's delineated community, it will be considered favorably in reaching an overall CRA conclusion.

The FDIC encourages depository institutions in the affected disaster areas to meet the financial service needs of their communities. Institutions that require supervisory assistance due to disruption of operations and other problems resulting from the flooding should contact their FDIC Division of Supervision regional office for further information.

# # #